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Soviet Union Prior to Departure

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DIVISION OF
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DEPARTMENT OF STATE

DIVISION OF
FAR EASTERN AFFAIRS

AUG 16 1938

OFFICE OF THE ADVISER ON
INTERNATIONAL ECONOMIC AFFAIRS
AUG 13 1938
DEPARTMENT OF STATE

The Honorable

The Secretary of State,

Washington.

AUG 24 1938

Sir:

Supplementary to the oral reports on conditions

in the U.S.S.R. and the discussions had with the President, the Secretary of State, and with the Department, with reference to the policy of the United States, which under present conditions in contrast to those of several years ago, would now seem advisable, I respectfully submit the following general review and summary report of the situation here.

Back of any question of policy, there are questions of fact, which must needs be controlling. These

factors

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factors, among others, are: the innate strength of the U.S.S.R.; the strengths and the weaknesses of the present regime, politically, economically, and from a military point of view; the attitude of foreign powers with reference to the U.S.S.R.; the future significance of these forces vis-à-vis world conditions and particularly their significance with reference to the United States.

The initial difficulty in assessing this situation lies in the fact that the field is so vast, the forces so great, the prejudices and controversies so violent, that it is difficult to envisage the whole picture and preserve an objectivity of judgment.

There do exist, however, certain definite ascertainable facts which, when marshaled, afford a basis for judgment. Moreover, in the last twenty years during which this regime has existed, certain developments stand out very clearly. They are mileposts in the evolution of the situation, which point to trends and possible future developments.

This report is aimed to present, as far as possible, a "Brief on the Facts". Facts produce their own conclusions:- and are not susceptible to color or lack of objectivity.

The facts here assembled are based either upon published sources of information without the Soviet Union, or upon Government sources published here. Where definite facts are not obtainable, an effort has been made to epitomize the best judgment of the very able staff

staff of this Mission ^{excess} [supplemented by the judgment of some of the Chiefs of other Missions who are stationed here, and as well by the opinions of American journalists, who have made a study of conditions here.]

This report is designed to be synoptic and as brief as possible. Necessarily, it does not purport to be exhaustive, complete, or comprehensive in detail. It is aimed at being neither argumentative in spirit nor dogmatic in opinion, but informative, designed to afford a more or less comprehensive picture "in the large".

This summary is addressed generally to the following subjects:

I. WHAT ARE THE INNATE STRENGTHS OF THE U.S.S.R.--PHYSICAL RESOURCES, ETC.?

Territory.

Population.

Density of population.

Birth rate.

Political subdivisions.

Semitic population.

Man Power.

Agricultural Resources.

Specific crops--Wheat, Oats, Rye, Cotton, Sugar Beets.

Development of agriculture.

Increase in use of tractors and combines.

Number and rôle of machine and tractor stations.

Timber.

Furs and fisheries.

Mineral

Mineral Wealth--Basic Raw Materials.

Oil, Coal, Iron, Water Power, Gold.

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1927-1938.

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Expenditures in Heavy Industry.

Increases in Production of Coal.

"	"	Rolled Steel.
"	"	Agricultural Machinery.
"	"	Electric Power.
"	"	Generators.
"	"	Transformers.
"	"	Electric Motors.
"	"	Automobiles.
"	"	Automobile Tires.

by car

Transportation and Communication.

Railroads.

Roads.

Airways.

Waterways.

Merchant Fleet.

Telephone Lines.

Mail.

Newspapers, Radios, Etc.

Books.

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The

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VI.

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THE U.S.S.R. IN WORLD RELATIONS?

VII. WHAT ARE THE POSSIBLE SIGNIFICANCES OF
THE U.S.S.R. TO THE UNITED STATES?

I. WHAT ARE THE INNATE STRENGTHS OF THE
U.S.S.R.--PHYSICAL RESOURCES, ETC.?

Territory.

The outstanding fact in connection with the U.S.S.R. is its enormous size. It contains one-sixth of the earth's surface--eight million square miles. It has an area two and one-half times greater than the entire possessions of the United States. Vladivostok is farther from Moscow than is Portland, Maine. The latitude of the Black Sea is about that of New York City. It encompasses territory greater than the entire North American continent north of the Panama Canal. It covers all zones, from the Arctic to the tropical. It comprises an empire more diverse than that from "Berlin to Bagdad". It includes vast areas of plains, mountains, forests and waterways.

Population.

The latest official estimate (1933) of the population is 165,700,000:- 8.29% of the total population of the world:- a population 30% in excess of the population of the United States. It consists of 180 different nationalities, with 150 dialects, and 48 different languages.

languages.

The density of population is 12.5 to the square mile in contrast to 41 inhabitants per square mile in the United States, 197 in France, 355 in Italy, 363 in Germany, and 668 to the square mile in England. If the entire population of the world were transferred into the U.S.S.R. the territory would not be as crowded as that of Germany. If the population of the entire world were quadrupled and placed in the Soviet Union, its territory would not be as crowded as that of the British Isles.

Most areas of the Soviet Union are uninhabitable much as the Soviet North.

Birth Rate.--According to the most recent Soviet data the birth rate in the Ukraine is about twenty-three to the thousand. The rate for the country as a whole is probably somewhat less, but rapidly increasing. In contrast thereto, the birth rates of the European countries are as follows: Italy (1935) 23.3; Germany (1935) 18.9; England (1935) 17.8; France (1934) 16.1.

Political Subdivisions.--The Soviet Union is made up of eleven political subdivisions (constituent republics), - each with a measure of autonomy. These socialist republics are theoretically free to disassociate themselves from the Union. As a matter of fact such liberty is academic. It is obvious that the Federal Government and, what is more, the Kremlin (Stalin) would not tolerate disunion. That fact appears very clearly in the recent Bukharin Treason Trial.

Semitic Population.--There are approximately 2,800,000 Jews in the country, constituting 1.8% of the total population.

1.56%

population. There has been created an autonomous oblast (province)--Birobidzhan, which is made up exclusively of Jews, controlled and governed exclusively by Jewish people. There are many Jews in the high and official and executive positions of the Central Government in Moscow. (See Hitler's "Mein Kampf".)

Man Power.

The nation contains a wide diversity of races, extending from the European Russians and Slavs to the Mongols of the East. Generally speaking, they are a strong, sturdy type. They reflect that physical hardihood, which the survival of the fittest under primitive conditions, close to the soil, would produce. European Russia in the 15th century had behind it an economic and historical experience in political development comparable in standards of experience and living approximating that of Alfred the Great. There are indications of this fact in the vigor, initiative, enterprise, and emotional richness and simplicities of a comparatively young people. Up to a few hundred years ago, Russia had none of the experiences of Europe, incident to the development of civilization.

Agricultural Resources.

Even more significant than the mineral wealth of such a territory are its agricultural resources. Such wealth is inexhaustible. It renews itself each year.

In 1937 the total area under cultivation in the Soviet Union was 367,170,949 acres. This is in contrast to

to 327,661,000 (1935) acres in the United States and 56,134,000 (1934) acres in Canada. Of the entire population, about 65% are engaged in agriculture. It is interesting to note that in 1913, 57% of the total output of Russian industry was agricultural, whereas industrial output constituted but 43%.* In 1937, however, the industrial output comprised 77% of the total output in contrast to the remaining 23% of agriculture, which quantitatively was slightly in excess of 1913. Generally speaking, the agricultural output in the Soviet Union under the present regime has not been in excess of pre-revolutionary production. In 1937, however, there was a bumper crop, which broke all records. The cereal crop for that year is estimated to be about 111,384,000 metric tons (4,451,360,000 bushels). It should be borne in mind, in this connection, that a great effort was made by the planning authorities to diversify agriculture, which eliminated large areas of cereal acreage and diverted them to the development of new crops, such as cotton, sugar beet, et cetera.

The following data indicate the remarkable agricultural wealth of this country.

Wheat.--In 1935, the Soviet Union produced approximately one-third of the total wheat crop of the world. It was two and one-half times greater than that produced in the United States; four times as much as Canada; five times as much as Argentina; and more than the United States, Canada, and Argentina put together.**

Oats.

* This comparison is based on value and is somewhat misleading. It still remains significant as generally indicative of the fact of the enormous increase in industrial production.

** In 1934-35 the production of wheat was: Total of the world, 3,470,000,000 bushels; Soviet Union 1,117,000,000; United States 497,000,000; Canada, 276,000,000; Argentina, 241,000,000.

Oats.--During the same year the Soviet Union produced approximately one-half of the world's oat crop. It was three times that of the United States and four times that of Canada. The production of the Soviet Union equalled the total production of the United States, Canada, and Germany combined.*

Rye.--For the same year the U.S.S.R. produced 80% of the total world's rye crop. It was fifty times as much as that of the United States; 40% more than the production of Germany, Poland, and France combined. It was in excess of the combined production of Germany, Poland, France, and the United States.**

Cotton.--During the same year the Soviet Union was fourth in the production of cotton. It produced more bales of cotton than did Egypt.

Flaxseed.--For the same year the Soviet Union was second only to Argentina in the flaxseed crop. The Russian production was approximately five times that of the United States.***

Beet Sugar.--Germany for many years was first in beet sugar production. In 1935 the Soviet Union doubled its production over the preceding year and took first place. The production of the Soviet Union for that year was almost double that of the United States and almost equal to the production of Germany and Czechoslovakia combined. It was more than 20% in excess of that of Germany. It was more than three times that of Czechoslovakia.****

Cattle.--The average number of cattle in the Soviet Union between 1926-30 was 64,900,000, in contrast to 59,191,000 in the United States. It was larger than the combined herds of Argentina and Germany. The Russian herds were three times larger than those of Germany.

During

* In 1934-35 the production of oats in bushels was: Total of the world, 2,217,000,000; Soviet Union, 1,302,000,000; United States, 526,000,000; Germany, 376,000,000.

** In 1934-35 the production of rye in bushels was: Total of the world, 946,000,000; Soviet Union, 792,000,000; Germany, 299,000,000; Poland, 254,000,000; France, 33,000,000; United States, 16,000,000.

*** In 1934-35 the production of flaxseed in bushels was: Total of the world, 149,000,000; Argentina, 79,720,000; Soviet Union, 27,558,000; United States, 5,213,000.

**** In 1934-35 the production of beet sugar in terms of raw sugar in short tons was: Total of the world, 10,886,632; United States, 1,257,750; U.S.S.R., 2,315,000; Germany, 1,817,430; Czechoslovakia, 615,700.

During the "strike" of the agricultural classes during the collectivization period from 1929-33, the number of cattle had declined to 38,400,000 in 1933. By 1935 it had increased to 49,255,000, which is still twice that of Germany.*

Livestock--Sheep, Swine, Horses.--During the same period, there was an enormous decline in these herds. They were practically cut in ~~two~~. By 1935 there had been an increase of approximately 20% over the low period, but still in 1935 the percentage of these herds was from 30 to 40% less than in 1928.

Development of Agriculture.--Intensive efforts

are now being made to develop extensive regions along the trans-Siberian Railway in the east. Enormous sums are also being expended for irrigation and the reclamation of lands. In 1929-35 a total of 1,350,000,000 rubles was spent on reclamation and irrigation as "capital investment".** It is interesting to note that in spite

of

* In 1926 there were in the United States, 59,191,000; U.S.S.R., 65,900,000; Argentina, 32,212,000; Germany, 17,776,000; in 1933 in the U.S.A., 70,214,000; U.S.S.R. 38,400,000; Germany, 19,139,000; 1935 in the U.S.S.R., 49,255,000.

** The official rate of the ruble is now 5.30 to the dollar. It has varied as follows:

1928	--	\$1.00	-	1.94 1/2	rubles.
1929	--	\$1.00	-	1.94 1/2	"
1930	--	\$1.00	-	1.94 1/2	"
1931	--	\$1.00	-	1.94 1/2	"
1932	--	\$1.00	-	1.94 1/2	"
1933	--	\$1.00	-	1.16 - 1.12	rubles.
1934	--	\$1.00	-	1.16 - 1.12	"
1935	--	\$1.00	-	1.16 - 1.12	"
1936	--	\$1.00	-	5.06	rubles.
1937	--	\$1.00	-	5.36	"

The black bourse, or "bootleg" rate of the ruble varies in different sections and fluctuates markedly at different times. It has ranged from five to fourteen cents, within the past year. It is now approximately ten cents. The actual value in international exchange is presumably reflected in the bootleg average rate. That cannot be arbitrarily accepted, however, because of the lack of a free market and the operation of free forces. Sir Walter Citrine, in his book, published 1936, gave his estimate at about five cents. Based on food purchasing power and all factors combined, my opinion is that the gold value is between five and ten cents, although in view of the

favorable

of the tremendous effort that has been made to apply the principles of mechanized, scientific agriculture in large-scale production, the actual grain crop in metric tons in 1936 was less than the grain crop of 1913. The bumper crop of 1937 exceeded the 1913 production by about 20%.

Increase in Use of Tractors and Combines.---The extent of the campaign for the mechanization of agriculture can be appreciated from the following facts. The number of tractors in the Soviet Union in 1928 was 26,000. By 1936 it had increased eighteen fold to 477,000. In 1930 there were 1,700 combines in the U.S.S.R., which had been multiplied about fifty times by 1936, when there were 93,200. The number of tractors and combines employed in agriculture were:

	Number of Tractors (in 1000)	Capacity of Tractors (in 1000 HP)	Number of Combines (in 1000)
1928	26.7	278.1	-
1929	34.9	391.4	-
1930	72.1	1,003.5	1.7
1931	125.3	1,850.0	6.4
1932	148.5	2,225.0	14.1
1933	210.9	3,209.2	25.4
1934	276.4	4,462.8	32.3
1935	379.5	6,534.0	52.1
1936	477.5	7,162.5	93.2

Number and Role of Machine and Tractor Stations.---

"During the first three years of the Second Five-Year Plan period, 1,904 new machine and tractor stations had been set up. The total number of these stations, which was 2,446 at the end of 1932, had risen to 4,350 at the

end

favorable balance of trade and large increase in gold production, it is within the realm of possibility that currency restrictions could be abolished and the value of the ruble could still be maintained within reasonable limits at the present official rate.

end of 1935. During 1935 they served more than 72.8% of the total collective-farm sown area. The machine and tractor stations are not only concentration points for high technique, but also for the application of scientific farming methods, and are the economic and political bases of the state in rural districts."*

Timber.--The forested area of the Soviet Union is claimed to be the largest of any nation in the world. It constitutes 57% of the total forest area of the world.**

Furs and Fisheries.--The wealth in furs is indicated by the fact that it is estimated that approximately one-tenth of its purchases abroad are paid for by the value of furs exported. Fisheries are also extensive, and are being scientifically developed at a rapid rate.

Mineral Wealth.

The U.S.S.R., through its official publications, claims that it has the richest deposits of the world in iron, manganese, oil, salts, phosphorites and apatites, and the second largest deposits of coal. While these claims may be discounted and taken with some reservation, still, the deposits are undoubtedly exceedingly rich.** Among the state treasures which I have been permitted to see there were solid nuggets of gold of extraordinary size, the largest of which was thirty-nine kilograms, or eighty-six pounds, in weight. These come from the Urals. There were also nuggets of platinum, one of which was
fourteen

* Excerpt from "Fulfillment of the Second Five-Year Plan During 1933-35", with foreword by Mezhlauk. (Note: Mezhlauk has recently been "liquidated" - whereabouts unknown.)

** New York World Almanac, 1938.

fourteen kilograms in weight.

Authorities without the Soviet Union admit that the Soviet Union is second in the world's gold production, and that the prospects are for a still greater output. While for military reasons no official figures are given out as to the extent of gold reserves, it is variously estimated that the production of gold runs between \$175,000,000 and \$400,000,000 per year.* The gold coverage for their currency is officially reported at approximately \$340,000,000 for 1937. [An excellent study of the gold supply is to be found in the report by Mr. Packer of the Riga staff. It is probably the most accurate estimate.] In discussions I have had with well-informed men, here on the ground, such as Spencer Williams, Walter Duranty, and certain authorities, including mining engineers from the Far East, and also in London, I find that their estimates approximate \$300,000,000 to \$450,000,000 per year. My opinion is that it is between \$200,000,000 and \$350,000,000.

In "The Strategy of Raw Materials" (By Brooks Emery, published by the Bureau of International Research of Harvard University and Radcliffe College), an analysis and study of the military self-sufficiency of the seven leading powers in essential foodstuffs and raw materials is made. The statistical tables disclose the extraordinary extent of the mineral wealth of the Soviet Union. It would appear that, on the basis of percentages of sufficiency, the Soviet Union enjoys 100% in coal, iron,

petroleum

* See New York World Almanac, 1938.

petroleum, manganese, mica, chromite, and potash; 90% in sulphur and pyrites; 85% in phosphates; 80% in mercury; 60% in zinc.

Comparatively, none of the other six great powers-- United States, Germany, Great Britain, France, Italy, and Japan--approximate the degree of self-sufficiency of the Soviet Union, with the exception only of Great Britain and the United States.

It is interesting to note that in manganese, chromite, potash, and mercury, in which the percentage of self-sufficiency in the United States is low, the Soviet Union has an abundance; that in necessary imports such as copper, et cetera, the entire imports come practically from the United States; and that the combined resources of the United States and the Soviet Union constitute complete self-sufficiency in foodstuffs and critical raw materials.

The New York World Almanac, 1938, puts it briefly as follows:

"The areas controlled by Russia comprehend nearly every material natural resource of modern civilization--minerals of all kinds, base and precious; every variety of timber, excepting tropical, every character of cereals, vegetable and fruit lands; being as near to self-contained, economically, as any other power, excepting the British Empire."

II. WHAT HAS THE PRESENT REGIME DONE WITH THESE RESOURCES SINCE IT CAME INTO POWER?

General Background, Historically; 1917-1926; 1927-1938.--

The Bolsheviks seized power in 1917. At that time industry was more than five-sixths gone.* Transport had worn out most of its existing reserves. The civil war, immediately

* See Pares, "A History of Russia", 1937.

immediately following the accession to power, practically put a stop to production work. The attempt to apply the principles of communism to agriculture was bitterly resisted by the bourgeois peasantry. The agricultural producers "struck" by simply refusing or failing to produce more than their own needs. This, and the utter lack of distribution facilities brought famine and even starvation to the towns. Trade, under these conditions and the disorder existing, dried up. The great drought in the early days of the revolution accentuated the distress.

Under such necessity Lenin led an economic retreat and established the N.E.P. (New Economic Policy), which was put into operation in March 1921. This policy attempted to retain communism as a principle of government, but actually shelved communism in practice. The peasants were in a measure given the right to property and given the opportunity for some individual profit making. Private trade was licensed. There was some improvement in economic conditions. Lenin, who projected this plan against great resistance, always maintained that it was a necessary step backward only in order to "take two steps forward". These several years were marked by the effort of the Government to induce capitalistic countries to provide money for the development of Russia's resources. The Soviet Union "played off" one country as against another. It was the period of fast-growing friendship between Russia and Germany, signalized by the Treaty of Rapallo.

Lenin

Lenin suffered a stroke in 1922 and died in 1924. The N.E.P. gave rise to a type of economic adventurer, so-called. These conditions frightened old Bolsheviks.* Recourse was had to purges at different times. These were carried out with great severity. Strong dissension arose in the Party. The result was that the N.E.P. men were "swept up with their profits" and the policy was abandoned.

Economic decline and chaos during these years threatened the existence of the Government. At its base lay the continuing revolt of the peasantry and their refusal to produce more than their needs. The existence of the Central Government and the entire communist principle were in jeopardy. By 1924 the Central Government had managed to balance its budget, but its entire net revenue did not exceed 1,400,000,000 rubles. The Trotsky wing were advocating world revolution, whereas the Stalin followers were advocating the projection of the communist principle in the Soviet Union first. Another right-wing group headed by Bukharin, Rykov, Tomski, and so forth, differed with Stalin's ideas regarding the policy to be adopted towards the peasantry. In particular, they opposed the forced and rapid collectivization measures advocated by Stalin. It was clear that economic chaos and possibly social anarchy were imminent unless something radical was done to change these conditions.

With the death of Lenin, a struggle for leadership arose. This finally resolved itself into a duel between

Trotsky

* See Pares, "A History of Russia", 1937.

Trotsky and Stalin. In 1927 Trotsky was expelled from the Central Committee of the Party. In 1928 he was banished to Asiatic Russia. His followers were liquidated by banishment or imprisonment. It was a complete Stalin victory.

These were the conditions under which Stalin in 1927 projected the five-year plans of industrial development, which admittedly have produced very remarkable results. The execution of these plans required great courage and utter ruthlessness and a general tightening up of belts in all classes of the community, all based on expectation of future benefits. In the early years of the first five-year plan, however, the Government was again threatened by the passive revolt of the agricultural districts. This revolt was ruthlessly crushed. The Government employed the simple but cruel expedient of taking its requirement of grain from the peasantry, even though it left nothing to them for food or for seed. The result was starvation in many sections. It was variously estimated that during this campaign from two to three million agricultural peasants died. The program of collectivization and mechanization of agriculture was carried out with similar ruthless force. Thousands of Kulaks ([?]large land holders) were "liquidated". The industrial plan and the workers, and the Government itself were alike dependent on agriculture for not only food, but for revenue for the creation and operation of the industrial plants. The issue was vital.

The

The Government won; but at terrific cost of life.

Heavy industry (first five-year plan), however, finally got away to a good start. Enormous new plants were projected. Entire new towns were built and sprung up like mushrooms. Enormous tractor works at Kharkov, automobile factories in Moscow and Gorki, tractor plants in Rostov and Stalingrad, steel furnaces in the Don Basin, fertilizer works in the Urals, enormous dams, were constructed. The great Dnieper Dam (Colonel Cooper's project) was completed in 1935. Over ninety new towns were created during the first five years. Industry in the Ural Mountains was increased five fold. The attendant dislocation of the populations, the drift to the cities and lack of adequate housing conditions and other conditions projected an enormous labor turnover that thwarted efficiency. Despite the inefficiencies of inexperience, accentuated by the bureaucratic governmental control and these tremendous difficulties, industrial output quantitatively increased 20% over the previous year in 1929, 38% over the previous year in 1930; with similar large figures later. The New York World Almanac, 1938, described the situation as follows:

"The annual output of Soviet industry has shown an increase of over six-fold during the last decade. During 1936 the advance in output, under the impetus of the so-called Stakhanoff movement of improved utilization of labor and processes, was 30.2%. At the beginning of 1936 there were 574,064 industrial establishments in the Soviet Union, of which 61,428 were classed as large enterprises. Workers and employees exceeded 25,000,000.

"Figures for the key indices of production, for 1936, for 1935, and for the fiscal year 1927-28, the year preceding the beginning of the first Five-Year Plan, are given below in thousands of metric

tons

tons unless otherwise specified:

	<u>1936.</u>	<u>1935.</u>	<u>1927-28.</u>
Coal	126,200	109,234	35,400
Pig Iron	14,500	12,500	3,280
Steel	16,300	12,700	3,370
Oil and Gas	29,200	26,900	11,600
Tractors (units)	97,122	100,801	1,500
Motor Vehicles (units)	136,583	96,692	667
Superphosphates	1,671	1,463	182
Cement	53,300	40,600	11,000"

This period (the first ⁴ five-year plan) was characterized by alternative ruthless purges and oppressions and conciliation policies, for all of which Stalin was extolled. It is interesting to note that the regime became confronted more and more with the necessity of making a success of these enormous undertakings. Their continuance in power depended ultimately on making good on the promises made to the proletariat. In order to make good and make the system of industry work there developed a marked and continuing departure in practice from the communist principle. The only insistent and constant stimulus to the workers was found to be the profit motive. Concessions were also made in the extension of rights or property to the peasants, as well as to other classes. The Stakhanovite movement (analogous to the piece-work system - the "speed up" principle) became a national policy. By 1934 there appeared clearly a very notable advance in heavy industry--both in much larger output and lesser costs.

Meanwhile, despite the withdrawal of millions of hectares from cereal production in order to project a so-called balanced scientific agriculture, the collectivization program managed to produce a normal amount of food.

food. Measurably, the five-year plan had justified itself. The outstanding fact in the situation, however, is that it was not because of Government operation of industry, but in spite of it. The enormous wealth of the country practically assured, quantitatively, a large measure of success, despite the enormous inefficiencies, wastes and losses which such a system must necessarily entail. What the regime did do, however, was to conceive the plan and drive it through. It is also significant that in order to succeed, the regime dropped the principle of communism in practical application.

In 1924, the total industrial output amounted to 6,000,000,000 rubles, whereas in 1937 it is estimated at 85,000,000,000 rubles.

*How about
the value of the
ruble in 1924
vs 1937?*

Of the total present industrial output, 75% has been produced by plants that have been built since 1917.

The tonnage in railroad freight had increased from 33,000,000 tons in 1924 to 323,000,000 tons in 1936.

River freight had similarly increased from 9,000,000 tons in 1924 to 69,000,000 tons in 1936.

By 1936 it is claimed that 91% of the total crop area of the country was cultivated by mechanized means through machine tractor stations.

Soviet Place in World Production--Volume.

By 1936 it is claimed that in world production the Soviet Union was first in the manufacture of harvester combines and beet sugar; second in total industrial output in machine production, tractors, motor trucks, iron ore, and gold; third in steel and superphosphates; and

fourth

fourth in coal.

Soviet Place in European Production--Volume.

In European production it is claimed that the Soviet Union held first place in total industrial output, in machine tool construction, in the manufacture of tractors, harvester combines, motor trucks, and in the production of gold, superphosphates, beet sugar; second place in steel production; and third place in coal output. By 1935, the Soviet Union, in contrast to European production, had also reached first place in oil and peat extraction, copper smelting, production of railroad freight cars and locomotives, and had taken second place in the generation of electric power and the manufacture of aluminum (see the State Plan Commission's "The Second Five-Year Plan" with foreword by Mezhlauk).

Investment in Capital Assets in Industry.

The total fixed capital investments in industrial development during the period 1929-36, inclusive, amounted to 70,856,000,000 rubles, which at the official rate of exchange approximates \$14,000,000,000; at the current bootleg rate of exchange, \$7,000,000,000; and possibly at gold value, not less than \$3,000,000,000 to \$5,000,000,000.

In large-scale industry the output in 1936 had increased five fold to 80,000,000⁰⁰⁰ rubles, in contrast to 16,000,000⁰⁰⁰ rubles in 1928. The following table measurably gives an idea of what has been accomplished in the past nine years under the administration of the five-year

plan

plan in industry.

	Production		Percentage of increase.
	1928.	1936.	
Coal (metric tons)	35,310,000	126,001,800	255
Pig iron "	3,229,808	14,169,600	339
Rolled steel	3,673,900	12,470,000	239
Machine tools (units)	1,738	32,408	1,760
Agricultural combines	none	42,500	-
Tractor plows	7,190	32,300	1,050
Tractor sowers	2,733	73,500	2,490
Electric generators (in thousands of kw)	92,600	744,000	703
Electric transformers (in thousands of kva)	403,200	3,203,000	690
Electric motors (in thousands of kw)	343,200	1,652,000	382
Electric power (in thousands of kwh)	5,007,000	33,000,000	553
Cotton cloth (in thousands of m.)	2,870,693	3,256,700	13
Woolen cloth (in thousands of m.)	84,232	98,100	16
Rubber (artificial in metric tons)	none	25,583	-
Automobiles	671	136,572	20,250
Automobile tires	82,000	2,137,800	2,630
Aluminum (metric tons)	none	36,000	-

Reliability of Soviet Statistical Authority.

It should be borne in mind that the statistical information on which the foregoing is based comes from Soviet sources. It is, therefore, subject to some discount. The question arises as to the extent of the reliability of their figures. The Charles Crane Foundation, during the past year, sent two young men, graduates of American universities, to finish their studies in "organization statistical information" at the university here in Moscow. I was advised by these young men that they had come here to take post graduate courses for the reason that in certain academic circles in the United States it was considered that the Soviet experts in statistical methods are among the leaders in their field.

field.* In this connection, another fact that sheds light upon the problem of the weight to be given to these statistics is the self-criticism which prevails here, in governmental circles, and which is constantly being voiced by the official press. No possible indictment could be drawn alleging the inefficiency and weakness of Soviet industry that could not be supported by current official Soviet publications. Those responsible here appear to be realistically objective and determined not to fool themselves. I personally have inspected a large number of plants, including the tractor plant at Kharkov, which employs 12,000 men, the harvester combine plant employs 36,000 men; the electric generator, turbine, and so forth, plant, employs 36,000 men, an aluminum plant, which employed 18,000 men, and other large organizations. As set forth in previous despatches, I was much impressed by the technical and fixed capital equipment, the methods used, the provisions made for scientific study and experimentation, and by their conveyor and line system of manufacture. The efficiency of the workers, in my opinion, could not be compared with efficiency displayed in plants that I have studied in the course of my work as Commissioner of Corporations

and

* Mr. Chipman, Third Secretary of the Embassy, points out with much force that "Soviet statistics should be used with great care and are in many cases unreliable. This has been shown many times and the present Soviet authorities admit it openly. The most recent example that I know of is the throwing out of the 1937 census. Practically the entire State Plan Commission, which worked out the Second Five Year Plan, has been liquidated admittedly because of faulty work. However, the fact remains that Soviet statistics must be used since they are the best available". The fact is also, in my opinion, that in the main their accomplishments in quantitative

and as a member of the Federal Trade Commission in the United States. In my judgment it was not comparable with that which does or would obtain under a capitalistic profit-making organization. It would not equal forty percent of the effectiveness of our industry. Nevertheless, it was perfectly clear that they were producing an enormous amount of serviceable output. In discussions, which I have had with American engineers here, I have also been impressed with the fact that the Government secures the best foreign technical skill available in connection with the erection of these plants, their operation and equipment; that the technical schools and universities are producing each year a crop of eager, earnest, young men, fresh from the land, many of whom finished their technical studies by working abroad in the industries of Germany, France, Italy, and the United States; that whereas there is a general disposition on the part of these younger engineers to discount the ability of foreign engineers in contrast to themselves, that nevertheless they are hard-working, ambitious, effective, and exceedingly earnest.

The conclusions which I have drawn from the whole picture are that quantitatively the figures are fairly reliable and reasonably measure the extent of the achievement. Allowing a substantial or even large discount as to their figures, these accomplishments would remain

most

production are so extraordinary (and established by independent factual data) that the statistical data can be discounted and discounted again and still leave a result that is very impressive.

most impressive. This fact is generally conceded in the Diplomatic Corps, even among those who are innately hostile to the regime.

The governing powers, as stated heretofore, are tied irrevocably to the making of a success of this plan. It may even be a condition of their continuance in power. The masses have been constantly fed with the idea that it would result in higher standards and better conditions of living. In order to make this industrial machine effective and to even make an appearance of the performance of these promises, necessity drives. The only permanent and insistent incentive that the Government has found, is profit. In the evolution, therefore, of this situation I look forward to a still further constant tendency to the right and an application of capitalistic principles in socialist production.

Transportation and Communication.

Railroads.--The weakest link in the chain of domestic economy is undoubtedly distribution. The Government has been making a drive in the past two years, (a) to bring up the efficiency of railroads and other means of transportation, and (b) to so plan agriculture as to produce local self-sufficiency in foodstuff supply and eliminate the necessity of long hauls.

The mileage of railroads has increased approximately 25%. It was 68,760 kilometers in 1917; 76,887 in 1928; 85,400 in 1936.

The double-tracking of the trans-Siberian Railway
has

has been completed. It is alleged that the Government is building a railroad north of "Manchukuo," ^{north of} into the maritime provinces in order to afford a safer military method of communication with the Pacific provinces.

I have been reliably informed that this road has now been finished. The Military Attaché to the Embassy here, Colonel Faymonville, a very careful and able man, advises that there is a marked tendency here to further develop transportation by the extension of highways and the use of trucks, rather than by railroads.

Roads.--The mileage of Tsarist Russia in kilometers was 24,000, of which 4,000 were paved. In 1936 there were two million kilometers of hard-surfaced roads, one-fifth of which are main highways.*

The military highways, some of which extend out of Moscow, are magnificent, straight, five-lane, asphalt highways.

Airways.--In 1936 there were 52,000 kilometers of airlines, in contrast to 15,000 in 1929. The number of airplane kilometers covered have increased from 3,200,000 to 56,000,000 in 1936. The metric tons of freight carried have increased from 1,000 in 1929 to 60,000 in 1936.

Waterways.--The development of waterways within recent years has been very extensive. The White Sea has been connected with the Baltic Sea (227 kilometers--put into operation in 1934). The Volga River has been diverted into Moscow (1937--128 kilometers), and it is alleged that there now exists complete river transportation from the

* See New York World Almanac, 1938. This probably should be taken with some reservation, as it does not check with other Government figures.

? This railway will not be finished according to plan, still 1940?

A.

the Caspian Sea to Leningrad. The total navigable river waterways are claimed to be 100,000 kilometers, which is twice the length of the navigable waterways in the United States.*

Merchant Fleet.--The tonnage of the merchant fleet of the Soviet Union in 1928 was 327,000 tons; in 1935 it was 1,350,000 tons, an increase of approximately 400%.

Telephone Lines.--In 1928 the total length of telephone lines was 556,110 miles. In 1936 this had increased to 1,343,750. The number of telephones had increased during that same period from 880,000 to 2,100,000.

Mail.--The number of rural postmen in the Soviet Union had increased from 6,900 in 1924 to 123,000 in 1936, approximately eighteen fold.

Newspapers, Radios, Etc.--The Soviet Union has 10,000 newspapers, with a circulation of 39,000,000. In 1928, there were, it is claimed, twenty-three broadcasting stations in the Soviet Union in contrast to seventy-eight in 1936, with 350,000 receiving sets in operation in 1936. In 1928 there were sixty-five telegraph-telephone service transmitters, whereas in 1936 there were 273.

Books.--In 1913 it is alleged that 26,174 books were published with 86,700 copies; whereas, in 1936 there were 43,348 books published and 571,000,000 copies issued.

Education--Schools--Universities.

It is claimed that illiteracy has been completely
eliminated;

* See "U.S.S.R. in Construction", Anniversary Number, 1937.

eliminated; that there is no Soviet citizen who cannot read. Sixty-seven percent of the population in 1913 were illiterate.

The number of elementary schools in the Soviet Union in 1936 was 164,100, in contrast to 106,000 in 1914, an increase of 64%. The number of colleges and higher technical schools have increased from 91 in 1915 to 592 in 1936, an increase of 500%. The population attending schools in 1936 was 28,842,000. 1,039,700 children attended kindergarten in 1936. In 1935 there were 1,712 schools for manual training, with a total number of students of 246,248. Twenty-six percent of the entire population, it is claimed, are attending school. It is also alleged that three and one-half times the number of children are attending school in the Soviet Union in contrast to the number attending school prior to the war.

"In Tsarist Russia a peasant would send his children to school for two years at best, and then only his sons, and in the cities a worker would send his children for three to four years; whereas in 1935 all children in the cities and 67% of those in rural districts who completed the fourth grade entered the fifth grade to continue their studies. Comparing 1932 with 1935, the number of children attending fifth to tenth grades increased from 3,600,000 to 6,700,000. Moreover, before the Revolution the high schools were attended by the children of the bourgeoisie and the big landowners, the intelligentsia, the clergy and the kulaks, while there was only a sprinkling of workers' and peasants' children."*

Erection of New Schools.--"In Moscow alone seventy-two big schools were built and fully equipped in 1935. In 1936, 152 additional schools were to be built in Moscow. In 1935 the total number of schools built in cities was 496, while in rural districts 1,000 elementary schools

and

* State Plan Commission's "The Second Five-Year Plan", with foreword by Mezhlauk.

and 2,000 seven-year schools were erected. The annual current expenditure allowance per pupil has doubled since 1932."*

Pre-School Training.--"Pre-school training is a constituent part of the educational system of the U.S.S.R. By 1935 the number of children in pre-school institutions (kindergartens and playgrounds) had increased by 627,000 as compared with 1932, the number at the present time being approximately 6,000,000."*

Higher Education Enrollment.--"During the three years of 1933 to 1935, 1,300,000 persons were enrolled in colleges, technical colleges and middle technical schools, while 485,400 specialists with college or middle school training were graduated. Altogether 509,900 persons studied at colleges and technical colleges in 1935, as against 477,200 in 1932 and 124,000 in 1913."*

Living and Social Conditions.

Rise in National Income.--The national income has increased from 21,000,000,000 rubles in 1913 to 65,700,000,000 rubles in 1935 (fixed 1926-27 prices). All this income, it is alleged, is being applied directly or indirectly to the betterment of the working classes.*

Employment and Wage Increases.--It is asserted that there has been no unemployment since 1930; that the number of employed persons has increased by 1935 by 1,800,000 as compared with 1932. It should be noted, however, that the Soviet system admits of no ^{un}employment except of persons who are not fully trusted or who are being punished.

Millions

* State Plan Commission's "The Second Five-Year Plan", with foreword by Mezhlauk.

Millions of people in the country, however, are not working in the fields in which they desire to be employed and although regularly employed are in a much worse status than those in the United States employed with relief funds. Political prisoners are not unemployed. They are working. The total wage is alleged to have increased from 32,700,000,000 in 1932 to 56,200,000,000 rubles in 1935. The average annual wage per worker had increased from 1,427 rubles in 1932 to 2,371.5 rubles in 1935.*

Agricultural Living Conditions.---The following excerpt from "The Second Five-Year Plan" by the State Plan Commission discloses that:

"According to a survey, made in 1934, of 83,000 out of the 240,000 collective farms, the quantity of grain products received in payment for work performed increased from 5.5 centners per collective farm household in 1932 to 10.9 centners in 1934, i.e., a two-fold growth. By the end of 1936 all collective farm households will have been provided with cows. The collective farmer has no worries about the purchase of seed, means of production or tractive power. The collective farm secures all this for him. The farmer in the U.S.S.R. has no rent to pay for his land. At the present time a special deed is issued by the State to each collective farm, transferring the use of its land to it in perpetuity."

Analysis of State Budgets.

The Government Income and Expenditures.---These items as shown in the published annual state budgets of the Soviet Union probably afford the most accurate basis

* Mr. Henderson, First Secretary of Embassy, suggests very pertinently that the statement that salaries have increased from 1,427 rubles in 1932 to 2,371.5 rubles in 1935 does not give a fair picture, because in 1932 most of the necessities of life were sold to the workers at extremely low prices through rationing. Since the early part of 1935 they have been compelled to buy most of the merchandise needed by them at State prices.

basis for an analysis of what the Soviet Union has done with its opportunities and from what source it has drawn its strength. The outstanding fact is that from 40% to 48% of the total Government receipts come from agriculture and but for the power and ability of the Government to take a direct toll "in kind" from the producers of agricultural products it is doubtful whether the regime could exist. It is certainly clear that the huge industrial program could not have been projected but for the wealth taken from agriculture. The irony of this lies in the fact that the original Bolshevik philosophers were constantly regretting that the great communist experiment was first to be projected, not in an industrial, but in an agricultural state.

The following table discloses the actual revenues received for the years indicated and the percentages thereof derived from agricultural and industrial sources, respectively:

		<u>Agriculture</u>	<u>Industry</u>
1924	1,400,000,000		
1928-9	8,116,100,000		
1934	50,759,600,000	(no breakdown in figures).	
1935	65,702,000,000	72%	14%
1936	78,715,028,000	54%	15.6%
1937	98,069,500,000	50%	17%

The remarkable transition from a more or less anarchic and chaotic condition of affairs which economically threatened the existence of the state in the early 20's, and the conditions which were the results of the Stalin plan of 1927 becomes apparent from a study of these figures.

figures.

It will be noted that the increase in revenues in fifteen years was approximately fifty fold and the increase for the last ten years was from eight billion to ninety-eight billion, or twelve fold.

The following table shows how these Government receipts were disbursed and apportioned as between the "national economy" (so-called), the social and cultural measures, and military and naval defense.

	<u>National Economy.</u>		<u>Social and Cul- tural Measures.</u>		<u>War Prepara- tions.</u>	
	(000 omitted.)					
1928-9	4,112,100	50%	1,495,510	16%	Not available	
1934	33,383,364	65%	3,240,900	6.4%	1,665,000*	3.3%
1935	35,104,700	55%	4,783,500	7.6%	6,500,000	10.3%
1936	37,583,501	48%	13,019,940	16.5%	14,815,500	18.8%
1937	37,256,917	38%	26,604,552	27%	22,431,030	22%

* Actually spent 5,000,000.

It will be noted that in 1928-9 50% of the total revenues were absorbed in "National Economy". By 1934 these expenditures had increased to 33,383,364,000, and by 1937 had reached 37,256,917,000. In this were included the enormous expenditures in capital betterment, industrial plants, road building, and so forth, all in the nature of fixed assets, as well as Government operating expense.

Remarkable Increase in Expenditures on Armament.--

Coincident with the rise to power of Hitler, it is interesting to note that from 1934-7 the percentage of the
total

total revenues of the Government employed for war purposes grew from 3.3% in 1934 to 28% in 1937. The total expenditures in 1937 reached 22,431,030,000 rubles, which at the official rate of exchange would be approximately \$4,200,000,000 and at the current bootleg rate of the ruble it would be \$2,200,000,000. At the probable actual gold value it would be probably one-half that.

Coincident Increase of Expenditures for Social and Cultural Welfare.--No less interesting is the fact that concurrent with this extraordinary increase in military expenditure, the outlay for so-called social and cultural purposes kept pace and exceeded it. In 1928 the total outlay for this purpose was 1,495,500,000 rubles (6.4%), whereas in 1937 it was 26,604,552,000 rubles (27% of the total). Expenditures for social and cultural welfare cover a broad variety of activities--education, kindergartens, creches, hospitals, social insurance, housing, drama, cinema, radio, propaganda, books, newspapers, et cetera. The significance of these figures is not in their absolute quality but rather in their classification and point of view. In spite of war necessities, the Government has constantly increased its outlay for these activities.

III. WHAT ARE THE ELEMENTS OF WEAKNESS INHERENT IN THIS SITUATION?

Among the obvious weaknesses, some are the following:

Size.--National solidarity finds a constant threat by reason of wide differences in character and other conditions

conditions in large sections of the U.S.S.R. Differences in conditions induce different needs, which, in many cases, induce conflicts of interest. It is a continuing anti-centrifugal force.

Racial Differences, - Language, Traditions, Aspirations.--

There are Slavs, Finno-Ugrians, Turco-Tatars, Japhetic peoples, Jews, Germans, Tadjiks, and Mongols, all with different racial instincts, habits of thought, religion, and concepts of government. These differences, particularly in religion, induce seeds of dissension and disunity.*

Character of Government Itself.--Based on the idea

of a selfless society, the State here is constantly threatened with the fact that it cannot destroy the instincts of human nature toward self-interest. These are imbedded in the glandular, nervous and physical organisms of men and are the resultant of the atavistic forces of centuries. If these instincts cannot be eradicated in a generation or two, this experiment must fail.

Bureaucratic Inefficiency.--The very enormity of

the task which this Government has undertaken, necessitates a tremendous bureaucracy that in itself is a threat. The size and extensive character of the tasks are constantly threatening to break down the administration.

The

* Colonel Faymonville points out that the Soviet Government has frankly recognized the existence of the minor nationalities and has even gone to great lengths to foster national cultures. It is believed that the special needs of each racial group are recognized to a greater extent than formerly. At the same time, transport and other means of communication between regions have been improved and the opportunities for exchange of goods have been improved in order that these special needs and requirements may be met. It therefore seems probable that the conflicts of interest among minor nationalities are less sharp than formerly and less likely than formerly to lead to the disruption of the central power.

The problem of accounting, alone as to the thousands of retail stores (necessary to protect honesty and efficiency) is illustrative. It is a staggering project.

Conflict Inherent Between Agricultural and Industrial Workers.--This conflict is a constant source of possible irritation and is pregnant with far-reaching political consequence. Particularly is this true where one class has been so continuously exploited for the benefit of the other.

Russian Character and Habits.--The native inertia and fatalistic quality of the Russian type is a constant "drag". Avos (perhaps), Niebos (it doesn't matter), and Nichevo (never mind) are proverbial in Russia.

The Possible Inaptitude of Agrarian Peoples for Mechanical-Industrial Work, Which Threatens Possible Breakdown of Industry Under Pressure.--The labor turnover in some industries rises as high as 125% a year.

Difficulties of Arbitrarily Fixing Just Wages.--Indications already appear that certain groups of Stakhanovites complain that because of arbitrary classification their rates of wage are not in line with other classes.

Counter-Revolution--Menace of Military Coup d'Etat.--There is always the possibility of the rise of a "Napoleon" in the Army, who might project a palace revolution and seize power.

The treason trials and recent executions and purges all indicate the weakness inherent here because of the conflicting ambitions inherent in human nature. This revolution is "devouring its own children". In spite

of

of the clear appreciation of this danger and the deliberate determination of the original Bolshevik leaders not to "start" shooting each other, and in spite of the formal declaration of Stalin himself to that effect in 1926, the killing of political offenders began in 1934 and has progressed with horrifying speed.

The Terror--Purge.--To a democratic mind, it appears to be inevitable that the tyranny over life and liberty exercised by the Secret Police, who reach down into all classes of society, and whisk men away from family and friends without any protection against possible injustice, must overthrow any regime, in the long run.

Revolt of Youth.--As time goes on with betterment in living conditions, and growing distinctions in class and privileges, youth will probably revolt against these actualities which are contrary to what they had been led to believe communism would induce; and this may ironically result in radical youth espousing in revolt the conservative political doctrine of individualism and capitalistic opportunity.

Dislocation of Agricultural Labor.--Through mechanized agriculture, a large number of agricultural workers will be displaced by machines, and will be thrown into the already over-populous industrial centers. What is to be done with them?

Dangers Incident to a General European War.--This would undoubtedly involve the Soviet Union. A long-drawn out war would provide fertile soil for revolutionary activities along the conventional line of revolutionary technique. This is a real threat.

The

The Menace of Possible Hitler Fascist Attack.--This menace very obviously is constantly in the forefront of the minds of this Government. Hitler's plan, as outlined in "Mein Kampf", and subsequently elaborated upon in his Nuremberg speech, in which the grain fields of the Ukraine were specifically mentioned, the "Drang nach Osten", all point to this possibility.

The Menace from the East, Japan.--The Government here is equally conscious of the possibility of Japanese aggression. They are vigilantly active in preparation in anticipation of such an eventuality. Recently there appear indications that as the hostilities in China drag out, the attitude of the Government here indicates a "hardening" tendency toward Japan.

Latent Hostility of Adjacent States.--Upon economic, religious, and political grounds, in all countries adjacent to the Soviet Union there is great fear of penetration and extension of the Soviet system into their territories. This accounts for the innate hostility that is general and quite obvious.

One-Man Rule.--This system of government always contains within itself great danger.

Tyranny--Oppression.--In any advancing intellectual experience and education, the innate dignity of manhood must give rise to constant resentments against oppression. No physical betterment of living standards could possibly compensate for the utter destruction of the liberty of thought and speech, and the sanctity of the individual.

Lack of Religion.--Every effort is being made to substitute worship of a man or men for the worship of
God.

God. It is one of the greatest weaknesses of this situation.

Mistrust Among Leaders Themselves.--The philosophy of communism justifies all acts if done in its name. There are no considerations of honor or loyalty which control as against duty to the Party. The result is that there can be no confidence or faith between these men, in leadership. No man can trust another. It is a serious and basic weakness and a constant threat to existing government.

IV. WHAT ARE THE POLITICAL STRENGTHS OF THIS GOVERNMENT?

The Communist Party and the Government.--The Government in fact consists of a very small group of men, who control the Communist Party. The Government is no more than the agent of the Communist Party, and takes orders from it. Realistically, the Government is in fact one man--Stalin the "strong" man, who survived the contest, completely disposed of all competitors, and is completely dominant. He appears to be the type of "Easy Boss", quiet, self-effacing, but nevertheless the real power. The Government is a dictatorship not "of the proletariat", as professed, but "over the proletariat". It is completely dominated by one man.

Resolute Character of Party Leadership.--The Communist Party is governed by a Central Committee of approximately one hundred members. The Polit Buro, consisting of eleven members, is a kind of board of directors. It runs the Party and the Government. These organizations do the will of Stalin. There is obviously

no

no "opposition". If it makes its appearance it is promptly "liquidated". The old theorists and mental type of old Bolshevik have practically disappeared. They have either died a natural death, or have been imprisoned, exiled, or shot. The survivors, now in control, are of the type of "hard-boiled doers" of the Revolution; such as the Soviet Robin Hood (Stalin), who robbed banks to finance the Revolution; and the top sergeants (Voroshilov, Budenny), who battled their way up from the bottom; or aggressive and able men of the younger generation (Mikoyan, Ezhov). The only notable exceptions are Kalinin, the President; Molotov, the Premier; and Litvinov, the Foreign Minister.

The power resides in Stalin, Voroshilov (Army), Ezhov (Secret Police), Kaganovich (the trouble shooter who built the Moscow subway and reorganized the railroads), and Mikoyan (Food). The last treason trial disposed of Bukharin, Rykov, and Grinko, who were of the old "Right" opposition. It and the previous trial disposed of Rosengolts, Krestinski, Pyatakov, Serebryakov, Sokolnikov, and Radek, of the so-called old "Left" opposition. The first treason trial disposed of Zinoviev and Kamenev. Tolski committed suicide. What of the old leadership remained after these executions, natural deaths and suicides have practically liquidated.

Technique of Dictatorship.--The strength of the Government is in fact determined by the strength of this group of leaders. Constitutional protections to the individual or to liberty, in the face of any necessity that confronts these men, are swept aside. These

men

men (the Kremlin) completely dominate and control the bureaucracy. They are, presumably, controlled by a mixture of motives. Generally, however, they are credited with a sincere and fanatical devotion to the communist ideal, as well as with a natural purpose to protect themselves. They believe that to be weak and not resolute is to betray "the great project" which they are seeking to promote for the benefit of mankind. They find justification for their conduct in the fact that ultimately they will be justified by the "historical trend". As Stalin is reputed to have said, they will not hesitate to kill men "as long as it is necessary for the cause". While idealistically devoted to the elevation of the proletariat they are realists of a pure type and do not hesitate to put every man in jail, if need there be, to make men free; or to shoot, out of hand, even their friends, if they run counter to their particular brand of communism.

Their private lives are reputedly clean. It is generally admitted that there is no graft in high places. Their habits are relatively simple. They live well in the Kremlin and have their dachas (country houses), together with their automobiles and all comforts. They are careful, however, to avoid ostentation. The salary of a Commissar is reported to be not in excess of 900 rubles per month, but as everything is provided by the State they do not need money.

They give indication of being indefatigable, and very hard workers. Practically all of them of middle age,

age, including Stalin, are reputed to be suffering from "tired" hearts. Those that I have met, have impressed me personally, as able, strong men, characterized by personality, energy, and ability as natural leaders. Stalin's entire career indicates an oriental patience and slowness in action, combined with a capacity for speedy and ruthless striking when necessary. He hits first. Had the General, Tukhachevski, been of a Corsican kidney last May, the situation here today might have been entirely different.

Indications of Panic of Last Summer.--As late as April 1937, generally speaking, no question would have been raised by any member of the Diplomatic Corps here as to the immediate strength and political permanency of the Stalin regime. Both at home and abroad the Soviet Union was at the height of its good repute, probably last spring (1937). Then occurred the developments of the treason trials and the executions of political leaders (finding their origin in the Kirov assassination of 1934), the court martials and executions of the eleven leading Army generals in July, the terrific "Purge and Terror" that proceeded throughout the summer and resulted in the liquidation of thousands of Soviet citizens, including both the high and the low in the Communist Party, and also those occupying high places throughout the various republics of the Union. The possibility of the existence of either treason in the Army, or a widespread conspiracy in the country, gave rise to doubts as to the strength of the regime. There were and are many indications of a condition bordering on "Panic" in Government circles.

The

The last treason trial (Bukharin), just finished, with its bizarre confessions, explained (as many of the Diplomatic Corps have stated to me) these perplexing happenings of last summer. Pieced together, the story elicited in these political treason trials was briefly; that beginning in 1929 the opposition to the Stalin regime (entirely lawful then) had hardened among many of the leaders of the Old Bolsheviks, who were high both in the councils of the Party and the Government; that with the march of events they became more and more antagonistic and deeply immersed in opposition. Unable to save their life ideals of government through any constitutional channels of open political discussion or action, they had gradually drifted into an unlawful and treasonable status, from which, perforce, they deliberately embarked upon or became committed to loose plans, of revolt, involving force, assassination and a palace coup d'état; that by the autumn of 1936, plans had actually been formulated for an immediate attempt by Tukhachevski and the Army to project a Kremlin revolution, to assassinate the present leaders of the Government, the overthrow of the present regime and seizure of power; that this was scheduled for May 1937; that the principal leaders were arrested early in the year and confessed shortly thereafter; that Stalin and his associates believed these facts to be true and with speed and ruthlessness hit first, court martialed and shot these leaders in the Army, and projected the violent "Purge" of last summer, reaching not only among the leaders but rank and file of the Communist Party itself.

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The "Ins" Completely Rout the "Outs".--I sat through two of these trials and listened to the testimony. From discussion with other members of the Diplomatic Corps at the time and since, I find that despite the horrifying manner under which the testimony was elicited, that the rationalization of the explanations of Bukharin, Rykov, Sokolnikov and others, and many other indications of verisimilitude and corroborations created a reluctant but general belief that there undoubtedly had existed a very wide hostility among the many leaders of the Old Bolsheviks toward the Stalin Government and that there had actually developed a more or less loose form of conspiracy and actual plot to overthrow the Government; that failure was largely the result of lack of resolute and bold leadership.

Present Strength of Stalin Government.--There is no doubt but what there is much discontent and antagonism toward the Government among the intelligentsia of the country and even in the Communist Party, which has been the chief victim of the last purge. All such opposition, however, is undoubtedly thoroughly cowed and under complete control. The horrors of the "Terror" everyone here feels. There are indications of it on all sides. It should be borne in mind, however, that the number affected, while actually large, is relatively a very small part of the total population. The Communist Party does not exceed three million in number. The Party itself during this Purge has been completely reorganized and remanned by fresh blood and young men--all Stalin men. As to the

masses

masses generally, it is generally considered that they are more or less indifferent to this characteristic Russian phenomenon and in some instances are even in accord with the liquidation of their tormentors, the "bureaucrats" and the "wreckers" and "traitors" who have threatened the existence of their beloved Soviet Union. It should also be borne in mind that the public is being constantly inoculated by propaganda. The bale of hay--the hope of betterment of living conditions--is constantly being held in front of the youth of the country. And there are some visible indications of progress, which are constantly being pointed out and enlarged upon. Constantly there is being pointed out to them what Stalin the great builder is doing for the Soviet Union. The enormous public works, housing, industrial plants, roads, all of which are being projected on a "ten-league canvas with the brush of camel's hair", are tremendously impressive, and give support to the propaganda.

Army Loyalty.--The strength of the Stalin regime depends upon the degree to which it may rely on the Army and the Secret Police. As the situation has simmered down during the last several months, prevailing opinion in the Diplomatic Corps grows stronger that the Army is loyal to Stalin--at least that he has it well in hand. Voroshilov, Marshal of the Army, and Stalin are old "buddies" of the same type, and apparently are very close. In addition thereto, the Secret Police, an enormous military organization with both soldiery and plain-clothes-men, that reach down into all classes of society,

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is actually an arm of Stalin's. It is completely within his control. His personal friend and appointee, Ezhov, has been diligently "cleaning and sweeping up" all anti-Stalin influences in the old Gaypayoo organization. Army and Secret Police serve as a check each on the other; and vie with each other in loyalty to the Party and to Stalin.

All propaganda agencies are controlled by Stalin. The newspapers, radio, cinema, teaching in the schools, in the Party cadres or centers, and in the Army itself, are constantly impregnating the public with the religion of communism, with the menace of foreign invasion, with devotion to Russian nationalism, and with the hope of betterment in living conditions. The arch protector of the masses "Father Stalin" is being constantly extolled. Communism has been drilled into all from childhood as a religion.

Under these conditions, it is not regarded as probable that there is any immediate possibility of the Government being overthrown.

Barring the coincidence of two accidents (for such, under present conditions, they would have to be), to wit, the assassination of Stalin and with it a concerted armed revolt and a Kremlin coup d'état, this regime would appear to be entrenched in power for some time.

Were a successful revolution to overthrow the present regime, even though the successor were to be a military dictatorship, the prevailing opinion here is that there would still persist a type of socialist government and state capitalism.

V. WHAT IS THE MILITARY STRENGTH OF THE SOVIET UNION?

Dangers from Without.--As to the ability of the Red Army, under present conditions, to prevent invasion of its borders by hostile neighbors, or to withstand a long war, there is some doubt, but it is generally believed here that it would be very difficult and possibly impossible for Japan, or Germany, or both, to "conquer" the U.S.S.R.

Among the leaders of the Government, and I have personally talked to some of them, there is absolute confidence that their Army is loyal and would be able to protect their borders from either Japan or Germany, or even under conditions of simultaneous attack.

The Regular Army.--The strength of the Red Army is approximately 1,300,000 men. In addition thereto the Secret Police (N.K.V.D.) has a military armed force of approximately 200,000 more. In comparison therewith it is interesting to note the numerical strengths of Germany, which is reputed to be 600,000; Italy 528,000; Japan 248,000; Poland 284,000; and Rumania 266,000.

Annual Call to the Colors.--Each year approximately 1,500,000 youth are called, of which 500,000 are required for active service.

Accumulated Reserves Available.--It is estimated that of the accumulated reserves of the past years there are available approximately five million trained men to fill reserve divisions; and that for subsequent draft there is available an additional reservoir of approximately six million, making a total pool of approximately

fifteen

fifteen million males physically fit for military service.

Mechanized Units--Tanks.--In tank equipment and mechanized units the Red Army compares favorably with neighboring states. It is estimated that there are available for immediate use approximately 4,000 tanks. It should also be borne in mind that the huge agricultural tractor manufacturing plants are readily adaptable for the manufacture of tanks in large quantities. It is reported that these plants have already been partially converted for such use. As early as a year ago, on the occasion of the inspection trip I then made, we were not permitted to see the foundry sections of many of these plants, and it was then generally thought the reason therefor was that they were being used for war purposes at that time.

The Air Force.--The air force of the Red Army is considered generally superior in numbers to that of any of the Great Powers. It is estimated that the total number of planes in the Red Army is 4,500. The pursuit planes are generally considered to be very good. The heavy bombers are second rate and very slow. It is generally accepted that foreign planes are known to be superior to the best types available here. I was advised by the French Ambassador that the Soviet Union is presently equipped to produce 4,800 planes a year. The Russians are air minded and considered to be excellent fliers.

Character of Officer Class.--The officers are
considered

considered to be of an excellent quality among the junior commanders and to be fair in capacity so far as higher command is concerned. They are generally younger men. It is generally considered here that the liquidation of the older and experienced generals has weakened the Army very materially. Personally, I agree with our Military Attaché, Colonel Faymonville, that while this is measurably true, it is much exaggerated.

Generally speaking, the Army is equipped with good hand arms, fair airplanes, and excellent tanks. The artillery is fair and is being rapidly improved.

The defensive position of the Soviet Union is inherently strong. The Army is being constantly indoctrinated with the religion of communism. It is probable that the Soviet Union could defensively maintain its entity against any combination of two hostile powers. If confronted by a hostile alliance of more than two such powers, some territory of the Soviet Union might be occupied, but it is probable that the present military forces would prevent decisive defeat and it is unlikely that permanent gains would accrue to the invading armies. The Russian winter defeated Napoleon. (See 1/ report of Colonel Faymonville attached hereto.)

The general opinion is that the Red Army is loyal to the Communist Party and, therefore, to Stalin.

VI. WHAT ARE THE POSSIBLE SIGNIFICANCES OF THE U.S.S.R. IN WORLD RELATIONS?

The future significance of Russian man power and resources and wealth as a factor in world conditions is obvious

obvious from the foregoing facts. Barring war, the future holds possibilities of the continued existence of this regime intact for a considerable time. Based upon the industrial and economic progress of the past eight years and the accretion of wealth during that period, as is evidenced by the fact that the U.S.S.R. has had an actual favorable balance of trade for the past two years, an enormous increase in production of gold, and many other physical indications, it is probable, and it is generally believed here that the wealth and economic power of this situation will continue to increase. The natural wealth is enormous. The technical equipment is excellent. Labor and administrative cost are low and in comparison with the capital investments are relatively negligible. There are no capital charges on investment.

Again in the development of water power, where already the production is second in the world, still greater capital investments are being planned. The agricultural wealth of the country is reproducing itself each year and is also being increased.

There are great inefficiencies and wastes that are necessarily incident to bureaucratic administration. Nevertheless, the resources are so great, that it is probable that the net result will be still further large additions to national wealth and economic power. Such a condition will inevitably have repercussions and far-reaching effects upon both world economy and upon world politics. The effect which the threatened shipments

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of two hundred million dollars in gold into the London markets last May had upon the exchanges of New York and London is illustrative.*

There is still another factor in the situation. The man power here is comparatively that of a fresh, young race. The Russian country youth for the first time in history are afforded opportunities for education, and technical equipment, and they see the opportunity that for the first time gives them "escape" from the restrictions of the peasant caste. In the city of Dnieperpetrovsk (population 600,000) there is a university in which it is alleged 25,000 students attend. The country boy has come to town and is "on his way". I was deeply impressed by the earnestness, ability, and balance of the men (all young) who are in charge of these huge industrial plants which I visited. This large class of youthful population are fired by the opportunities which open up new vistas to them through the application of science and industry to the great natural wealth of their country. It is quite reasonable

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* This gold situation is illustrative of the potential significance of this situation. Gold as a stable measure of value as a medium of exchange has as one of its chief supports for long-range stability the fact that under the operation of the law of supply and demand, the production of gold has responded to the law of supply and demand, dependent upon the cost of production. The supply of gold has adjusted itself to changing conditions dependent upon costs. When gold prices are high, high-cost producing mines come into production. When the price goes down automatically they go out of production. Thus do costs, and the law of supply and demand adjust the gold supply to world commodities and conditions. A new factor in this established equation is possible if any part of the world produces gold without labor costs in money or without regard to costs of production. That factor is of far-reaching significance. Potentially it exists here.

to assume that regardless of who might be at the top of this Government this force will not be denied. They have tasted the fruits. With its natural mineral and agricultural wealth, tremendous actual and potential water power, cheap inland water transportation, low labor costs, and the appreciation of the possibilities of the application of science and machinery to natural resources, this situation appears to me to be analogous to that imminence of rapid development, which confronted the United States seventy years ago.

It will probably be a number of years before this production will affect world markets. All that can be produced, for a time, will be required for local consumption, which, as President Kalinin stated to me, was enormous and like a "consuming fire". If, however, this regime, or a similar successor persists for some time, the world will have to reckon not only with the potentialities, but the actualities of a very substantial factor in the world economy. Its repercussions on economic and political developments in Europe and in the world will be far-reaching.

A possible alternative, that the future affords, is that this territory might be subdivided by internal revolution into several large independent autonomous subdivisions. Similarity of interests would group them naturally into White Russia (Western Russia), the Ukraine, the Oriental Caucasus, Mongolia, the Eastern Provinces, and Siberia.

Under these conditions it is interesting to note that the R.S.F.S.R. comprises that section of Western
Russia

Russia from Finland to the Caspian and Black Seas, excluding the Ukraine, and is said to contain 50% of the population and 80% of its territory. It has been said that a line drawn from Leningrad to the Caspian Sea would bound on the east that section of Russia that contains 80% of the agricultural productivity, 70% of the population, and a very large part of its water power, coal, steel, and other basic resources. Were this section to be cut in two, nevertheless the potentialities, economically and politically, under the promise of continued development would be very substantial, and would materially affect both European and world conditions.

A third alternative that the future affords might be the possible but remote contingency of conquest by, or union of, Germany and Russia. It need scarcely be pointed out that if German scientific and industrial methods and German managerial capacity and discipline were applied to the resources of man power and wealth here the effects upon Europe and the world would be very great.

It is probable that it is, in part, because of these considerations that the great western European powers, as well as other nations, maintain diplomatic representation here; and some of them in the face of well-nigh intolerable conditions.

VII. WHAT ARE THE POSSIBLE SIGNIFICANCES OF
THE U.S.S.R. TO THE UNITED STATES?

The traditional relationship between the United States and the Russian people has been one of friendship
and

and good will. Catherine the Great refused the opportunities of George the Third to loan or hire her troops for use against the American colonies. Past historical events and other considerations account for the fact that there is undoubtedly great friendliness on the part of the Russian people toward the United States.

As stated in a previous despatch, the authorities of this Government have gone so far as to expressly state to me, that their Government would do more to accommodate the United States than it would do for any other capitalistic country. They have given recently some proof of this attitude (notably in the Hrinkevich and Rubens cases).

As for ourselves--this system is a tyranny, clothed in horror. While a dictatorship of the most ruthless and cruel type exists here, it appears to differ from a fascist dictatorship, at least in one respect. Dictatorship over the proletariat is not the objective or end this system professes to seek, as is the case with fascist ideology. The fact of dictatorship is apologized for here. It is justified on the ground that it is a realistic expedient, resorted to only to protect the masses of the people, until they can themselves rule under a system where ideologically the individual and not the state shall be supreme. Moreover, there is no doubt of the present sincerity of this regime in its desire to maintain Peace.

Considered objectively, and without regard to ideological conflicts, there are certain facts which vitally affect

affect the United States.

The resources of Russia, strategic and necessary in time of war, complement and supply the lack of those existing in the United States.

There are no conflicts of physical interests between the United States and the U.S.S.R. There is nothing that either has which is desired by or could be taken by the other.

The territory of the U.S.S.R. is contiguous to and lies to the west and north of "Manchukuo" and north and east and west of Japan. As stated heretofore, the U.S.S.R. supports in this region a complete and self-sufficient army, variously estimated at from 350,000 to 450,000 men. This armed force is equipped with modern armament, and it is alleged that it has sufficient supplies, independent of western Russia for a two-year aggressive campaign. It is reported to be the fixed policy of this Government to constantly maintain in this region two Soviet soldiers for every one Japanese soldier in "Manchukuo". (This was stated to me by the Japanese Ambassador.)

The Soviet Union is making great efforts to build up its Navy. It is now claimed that they have 40 submarines in Pacific waters.

Vladivostok and the Eastern Provinces are the bases for a large number of Russian bombing planes and pursuit planes (probably 1,500), all within cruising radius of Japanese cities that are largely built of wood.

Consul Blake, of our Service, arriving here from
Japan

Japan recently, advised that there is much discussion among Japanese business men of the danger arising from Russian airplanes.

The London Times of April 8, 1938, under a Tokyo date line stated: "To adduce Japan's refusal to give information on her naval building plans as the reason for the invocation of the escalation clause by Britain, the United States, and France was a 'mere transparent trick,' declared Rear Admiral Noda, spokesman of the Admiralty, in an interview with the foreign press this morning. * * * Admiral Noda, speaking as Admiralty spokesman, then went on to complain that the defense line of the United States Navy, which had hitherto consisted of the American coasts and of the Panama Canal, was now 'advancing' farther west in the Pacific."

There is one situation, where a very serious issue might develop. That is the possible intrusion of the U.S.S.R. through the Comintern into the local affairs of the United States. Fortunately that has been measurably eliminated by the agreement entered into between President Roosevelt and Commissar Litvinov³ in 1934. Apparently there is very little activity on the part of the Comintern. The French Ambassador here has stated to me that in his opinion the Stalin Government is desirous of lessening contacts with world revolutionary forces and would reduce its interest in the Comintern, but for the fact that the Government here desires to use the Comintern as an adjunct of military defense in case of war with aggressor states. Recent developments, however,

however, make it clear that the Comintern will not be abandoned. Along with the Red Army and Secret Police, the "Workers of the World" are held up as the defenders of Russia against fascist attack.

A common ground between the United States and the U.S.S.R., and one that will obtain for a long period of time, in my opinion, lies in the fact that both are sincere advocates of World Peace.

7 In my opinion, there is no danger from communism here, so far as the United States is concerned. To maintain its existence, this Government has to apply capitalistic principles. Otherwise it will fail and be overthrown. That will not be permitted by the men presently in power, if they can avoid it. I expect to see this Government, while professing devotion to Communism, move constantly more to the Right, in practice, just as it has for the past eight years. If it maintains itself, it may evolve into a type of Fabian socialism, with large industry in the hands of the State, with, however, the agricultural and smaller businesses and traders working under capitalistic, property, and profit principles.

SUMMARY.

I.

The extent of territory, the natural wealth--
agricultural, mineral, water power, fisheries, natural
ways, and man power of the U.S.S.R.--present a situation
2/ pregnant with potentialities of tremendous economic
development

development and power.

II.

The Bolshevik regime floundered on the verge of anarchy and chaos for ten years, but during the last ten years under the Five-Year Plans a most extraordinary record of hydraulic, industrial, communication, social, educational and Army development is quite apparent. It is undoubtedly due to the driving force of Stalin. It has been characterized by a marked departure from the communistic principle in practice. The profit motive had to be resorted to in order to make the system work.

III.

The weaknesses in the system are many and apparent. Communism will fail here. Human nature cannot be changed in two generations. The system is now a type of capitalistic state socialism. Its continued existence and development cannot be forecast, as there are too many imponderables in the problem, such as European war, etc. It is generally considered that if the present Government were overthrown from "within" by a military dictatorship or otherwise, a type of state socialism would still obtain, due to the education of each succeeding class of children during the last twenty years, all educated in the religion of their theories.

IV.

The strength of the present regime is found in the resolute, bold, ruthless, and able leadership of Stalin. He has complete control of the Army, the Secret Police, the

the newspapers, the radios, and the schools. Stalin is fast becoming, along with Lenin, the "superman" ideal of the masses. For the present this regime is firmly entrenched. There is always, however, the threat that hangs over dictatorships. Barring accident or assassination, coupled with a coup d'état, the present regime will persist for some time.

V.

The military strength of the U.S.S.R. is impressive. In both quality and numbers the man power is extraordinary. The standing army of approximately 1,500,000 men is divided into two self-contained units, one in the west and one in the orient--about 70% in the west and 30% in the east. It is well equipped with side arms and well disciplined and trained to fanatical devotion to communism. Its mechanized units are very good. The air force personnel is excellent--their equipment good in pursuit planes, poor in bombing equipment. Numerically the air force is probably the strongest of the great powers. In air equipment, generally speaking, they probably are two or three years behind the western nations.

The Government is supremely confident that it could successfully resist simultaneous attack by Japan and Germany.

It would be exceedingly difficult to conquer or annihilate these forces, with their ally the Russian winter.

The weakness lies, perhaps, in the second line of defense--the industrial production back of the lines

and

and adequate supplies of high-grade petroleum products.

VI.

The significance of this situation to Europe and the world is very great. Regardless of what regime, or what character of government exists, the forces that have been set in motion, as applied to this enormous natural wealth, will inevitably develop an economic factor of substantial character that will make its influence felt in Europe and in world affairs.

VII.

The significance to the United States is quite clear. If Japan should go berserk by any chance, the fact that Russia is at her back door is of consequence to us.

The Soviet Union is more friendly to the United States than to any foreign power. That is quite clear.

If the U.S.S.R. should be excluded from the proposed Four Power Pact and become isolated (as it now seems to be convinced it will be), there is reason to believe that it may continue to live unto itself and develop indefinitely. It may develop into a very potential threat to world economic and political stability.

Communism holds no serious threat to the United States. Friendly relations in the future may be of great general value.

Respectfully yours,

Joseph E. Davies

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Enclosures:

1. Military Report on the Soviet Union.
2. Economic Report on the Soviet Union.

JED/hla

1 copy to
1 copy retained in DOR
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carbon copies rec'd in A.S. Aug. 19, 1945-64
carbon copies out of A.S. Aug. 20, 1945-64